

The Influences of Innovative Retailers on the Distribution Channels in Japan

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Under the channel control by manufacturers, all the main marketing problems are solved at the level of manufacturers and with profit and sales of manufacturers as a standard, and wholesalers and retail stores which are included in marketing channel cannot take parts in solving marketing problems. However, the development of discount retailers comes to interfere in such a marketing channel under the control of manufacturers. Such discount retail stores as supermarkets in Japan, which began to develop around 1960, did not have such an innovatory character as seen in the United States; but with discount from retail prices instructed by manufacturers or from common retail prices and with introduction of selling method which makes possible the consumers' option and highly convenient shopping these discount retail stores come to have their own power to mobilize consumers. Besides, discount retail stores, by infiltrating through mass market, became large in scale; and have grown to some type of industry, manufacturers were forced to use discount retail stores to achieve broad marketing contact. It is difficult for manufacturers to control the behavior of discount retail stores as they please, and parts of marketing policy by manufacturers which are amended by these retail stores are increasing.

In this paper, we attempt to evaluate the influences on innovative retailers on the distribution channels in Japan.

I

Even in the United States of America in the 1800's, manufacturers didn't have enough facilities for marketing. They depended entirely on wholesalers that controlled retailers. Manufacturers began to create the final demand through product-diffefentiation and advertising and to train and to organize salesmen around 1900. Manu-

facturers tried harder to create the final demand and began to take control over distribution channels by the following measures; signifying distribution systems by eliminating wholesalers, establishing control over wholesalers, avoid depending on a few wholesalers and dealing with a lot of wholesalers, guaranteeing sales opportunities by limiting the number of wholesalers and retailers in a district.

The appearance of discount retailers, such as supermarkets in the 1930's, discount houses and discount stores or in the 1950's, however, weakened the control over distribution channels of manufacturers. These discount retailers, especially supermarkets and a discount houses, came to enjoy a large patronage by introducing innovative sales methods; like making discounts on various articles off list prices, giving customers a wide and free range of choice or convenient shopping systems. Furthermore, in the 1950's, discount retailers became large in scale by cultivating the middle mass market. Manufacturers had no choice but to make use of discount retailers to explore larger markets. As retailers around also adopted the sale systems of large-scale discount retailers and attracted customers though in smaller scale, manufacturers became more dependent on the retailers. Therefore, it is now very difficult for manufacturers to assume a one-sided control over distribution channels. Manufacturers have to depend on relatively free distribution systems of retailers that act in immediate response to the marketing situation. Manufacturers are shifting their positions in distribution channels from a ruler to a leader with some influential power.

Discount retailers succeed in thrusting themselves into distribution channels, only when the industry is not concentrated, or the industry has competitive fringes even in a concentrated industry. Discount retailers could not acquire any position into a concentrated

industry. When certain manufactured goods have special characteristics and consumer brand loyalty, manufacturers often adopt a restrictive distribution system and prevent discount retailers from entering into the channel. In these cases, manufacturers continue to exercise control over consumers and distribution channels by means of advancing product differentiation and advertising.

Discount retailers flourished rapidly because continual inflations and recessions cycles led consumers to response quickly to prices. Various discount retailers grew because even people in the middle income bracket, which forms the bulk of the market, are now keenly responsive to discounts from manufacturers' list-prices on every kind of product.

Consumers come into contact with various brands and stores, taking advantage of competitive prices introduced into the distribution channels by discount retailers. Consumers now reconsider their former purchasing behavior and make plans for their purchases. It was anticipated that the concentration in the retail market in a city by a few large scale discount retailers would entail a danger of monopolistic behavior. The monopolistic behavior of large scale retailers, however, has been restricted because the economy of scales are not definit, the entry costs less and there are a lot of rivals. It is known as a fact that there have been some monopolistic behaviors like keeping pace in price or renouncing innovative sale systems among large scale retailers and other retailers after they accepted a stable position in the market.

In America, discount retailers changed consumer's behavior of planning quality. The improvement of educational standard brought about conscious, independent consumers. The increase in income made consumers more responsible for risks in purchasing, and gave freer

choices in brands. Product differentiation and advertising became less effective to the consumers. As for choosing stores, consumers came to rely much more on retailers, and they did not usually compare stores saving hours for leisure time amusement. According to the '67 report by W. P. Dommermuth and E. W. Cundiff¹⁾, 40% of consumers looked around two or more stores, 23% of them three or more stores in purchasing apparels.

Though supermarkets in Japan began to build a lot of stores in the latter half of 1960s, the advertising of supermarkets did not lead consumers to make plans in choosing brands or stores. Supermarkets suffered price interference from manufacturers. As a result, supermarkets introduced competition in price with rigid limitations, for supermarkets had to draw their supplies from manufacturers. Retailers around supermarkets almost always avoided competition by means of assortments different from that of the supermarket, establishing a service system or store differentiation. For they could not take competitive measures in price and assortment because the cooperative buying system was not fully set up and wholesalers with a small profit rate for small or medium scale retailers were not developed. Supermarkets, which suffered few counterattacks, cut down discount rates in the early stages, kept pace with retailers around and endeavored to gain a higher profit rate, after accepting a favorable position in the market.

In Japan, as consumers' purchasing behavior is concentrated in downtown areas, supermarkets must be built in or near downtowns, where the cost of fixed assets is so high that supermarkets can not carry on positive programs for drastic discount. Supermarkets in Japan often spend so much money on store differentiation that consumers sometimes think that supermarkets do not always exercise

drastic discount programs. There is no denying that supermarkets have endeavored to introduce innovative programs such as making manufacturers concede in wholesale prices, discounting prices directed by manufacturers, dealing in rival brands at the same time and offering consumers opportunities for self-selection in the stores. Though they suffered rigid limitations caused by the strong tie between manufacturers and retailers, the '77 nationwide study on prices conducted by the Prime Minister's Office²⁾ tells that retail prices are generally the cheapest at supermarket chains, next at other supermarkets, then at retailers and the highest at departmentstores. The wholesale prices are the highest for general retailers, next for departmentstores, and the cheapest for supermarkets.³⁾

According to Chain Store Age-Supermarkets,⁴⁾ about 77% of the American consumers changed their purchasing behavior after the severe inflation of 1973-1974. More than 80% of them began to think economy in preparing and planning meals. About 80% shop only once a week, receding the number of shopping trips to prevent further impulsive buying. People who once stuck to national brands (famous brands) came to choose private brands (supermarkets' brands). More than 60% of them came to look around to more than supermarkets. Consumers became more concerned with price, quality and the reasons in purchasing, and were more careful in choosing articles than before.

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- 2) Prime Minister's Office (Statistics Bureau), *Nationwide Researches on Prices in 1977* (Prompt Reports) (April, 1978), p. 15.

3) *Ibid.*, p. 30.

4) *Chain Store Age-Supermarkets* (January 1975), pp. 41-42, p. 61. As for further details of retrogression of manufacturers' control over distribution in America, see Yoshio Kajiwara, *Demand Fluidization and Corporate Behavior*, (Kyoto: Minerva, 1974), Chapter 3.

II

Manufacturers' distribution control in Japan is strongly exemplified in the auto assembly manufacturers' control over the dealers. In Japanese auto industry, the top two manufacturers, which have advanced concentration since the beginning of 1970, now get a large share by 60% in the market. If the next three manufacturers are included, all of the big five have a share by approximately 85%.¹⁾

In the distribution of new cars, a motor sales company (an agent exclusively given a permission by an auto manufacturer) and dealers stand between manufacturers and users, and sometimes there are some sub-dealers between dealers and users. Both manufacturers and sales companies control over dealers by means of holding stocks, appointing executives, and financing. Most manufacturers prohibit dealers from trading in their rival manufactured goods. Almost half of manufacturers put restrictions on the types of cars they can deal in. In addition, auto manufacturers and motor sales companies forbid dealers to trade in machine parts, appliances like air conditioners produced by other companies. In many cases, manufacturers and sales companies adopt the closed territory method by which only one dealer has a permission to sell a certain type of car in a certain district, or take location system which limits a dealer's trading territory. Most manufacturers and sales companies impose sales norm on dealers that have monopoly or sales territory. Auto manufacturers and

sales companies usually adopt the cumulative rebate system.

It is of interest to examine car sales records of recent years. Car sales peaked out in 1973. After the energy crisis, car sales also receded and the auto industry experienced some stangation. When the new models were unveiled from 1977 to 1978, domestic demand showed signs of recovery. The recovery was caused partly by the manufacturers' efforts to fill new-felt needs of users for fuel-saving, small-sized and more comfortable cars with easier maneuverability. It is pointed out as the most important factor that the manufacturers adopted competitive price programs to deal with the needs of users, who now take more notice of prices. Rationalized management by curtailment of expenditure, labor-saving efforts and the principle of competitive prices after the energy crisis have enabled auto assembly manufacturers to satisfy users with reasonable prices, though the stringent exhausts standards and safty standards were laid down and manufacturing costs have been increasing. The problem lies in the fact that this competitive price program is carried out by sacrificing dealers.

The profit rate of assembly manufacturers has been above the average rate of all kinds of industries as well as of manufacturing for exports have remained at a rather high level. Especially the top two corporations have realized a large profit. On the other hand, not a few dealers of small scale have been deficit-ridden.²⁾ The earning rate of auto dealers is rather low among retailers of major manufactured goods, when it is examined from the point of ratio of current profit to current sales or ratio of current profit to total capital. Years of the balance sheet for the first half year show that the average ratio of current net profit to current sales of the auto dealers started on the downward path after 1973 until it became 0.29% in the first six months of 1977.³⁾ The distribution cost and labor cost

on the part of dealers have increased by the rate exceeding that of sales increase. Giving a direct discount on new cars and paying on trade-in cars leaves dealers only a narrow margin. 1977 Ministry of International Trade and Industry survey⁴⁾ shows that new car sales discount depends only on new cars by 86%, 7% on trade-in cars, and the rest 7% on both new and trade-in cars. New cars bear heavy charges for sale.

As was already pointed out, the two largest auto manufacturers have engrossed the markets and both manufacturers and auto sales companies have controlled over dealers. But the two largest manufacturers compete actively in the same market. The subordinate manufacturers have concentrated their production on specific types of cars, made production more efficient, and competed rather successfully with the two biggest ones. Though the auto industry is oligopolistic in Japan, there is some competitive fringe around it. There is fierce competition among similar types of cars one manufacturer produces, for each type has its distribution channel.⁵⁾ Both exclusive system and territory system restrain competition which often occurs in dealing in the same type by the same manufacturer, and avoid ruinous competition.

Next we are going to talk about the household electric appliances market. The top three manufacturers have a share by 50-52% in color TV. The top five have a share by 74-76%. As for refrigerators, the top three have a share by 62-64% and the top five have a share by 74-76%.⁶⁾ All assembly manufacturers of household electric appliances are large in scale and they have instituted the sales companies for wholesale and even small retailers. Supermarkets and mass merchandisers cut in the distribution channels, and so the sales amount of manufacturers' administered stores receded to 60%.⁷⁾ Supermarkets

and mass merchandisers, which are in a rather free position towards manufacturers by displaying various brands, intensify the competition in distribution process. Though it is easier for the assembly manufacturers of household electric appliances to make an entry than those of autos in the point of the investment and technical aspect in production and in development, though it is almost impossible in the point of investment, technical aspect, and distribution channel as a whole. Supermarkets and mass merchandisers which are not administered by the manufacturers, have been able to break into not the distribution channels of autos but that of household electric appliances, and there is some competition in price which manufacturers never anticipated. The prices of household electric appliances have advanced at a gentle rate compared with those of other manufactured goods. Even after 1975, the wholesale prices of household electric appliances have declined except air conditioners.⁸⁾ For growing demand, technical innovations, rationalization of production have mainly prevented prices from rising up. The introduction of competition in price by mass merchandisers and large-scale supermarkets into the distribution process has also kept down prices.

References

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- 8) *Ibid.*, p. 99.

Conclusion

We expect that free competition in the distribution channel will develop further in Japan, for manufacturers still have control over channels. We may refer to the system including innovative large-stores a good model. The system is based on the idea that competitive specialty stores surround an innovative large scale store in a trading area. It is more desirable that one trading area has several large-scale stores. In this case, it is expected that some competition will occur among the large scale stores, or between the large scale stores and the retailers around them. It is also anticipated that the large-scale stores will not show strong price leadership.

If the retailers in a trading area deal in the same brand goods the retailers will be interdependent on once another. Even when they cease to compete in price and in assortment of goods, they advance store differentiation programs and sales promotions, which consumers do not necessarily expect. On the other hand, large scale stores sometimes give some incentives to innovative competition, which no interdependent retailers have ever constituted. The department stores in Japan now cooperate with manufacturers in maintaining resale prices and advance store differentiation to extremes. In the early stage of the history, however, department stores were one of the large-scale

retailers that introduced innovative sale systems for consumers' needs such as the assortment of various brand goods, marking the retail price on every article, and offering consumers a wide range of choice. As for supermarkets which have developed since the latter half of the 1950s, they have urged manufacturers to modify their monopolistic marketing programs, though they are said to be less innovative than discount retailers in America. There is no denying that both department stores and supermarkets introduced a new sort of competition among retailers in the district.

In the industries oligopolistic in production, large-scale retailers are allowed to open stores, to sell freely, and to control manufacturers' monopolistic marketing behavior. In Japan, however, large-scale retailers tend to keep pace with the major manufacturers. We can not expect the effect of competition introduced by large-scale retailers into the monopolistic market. For retailers around are sacrificed in the competition. It is more desirable to control large-scale stores than to allow them to complete freedom to maintain and develop competitive retailers around them. We can not expect the retailers to adapt themselves effectively in the competition with the advancing large scale stores, for there some limitations about retailer's capacities and some risks in adaptation. The problem which would control large scale stores' market share in a certain trading area to lower level is required to eliminate bad effects of monopoly in the assortment of goods and in pricing. The entry of retail stores into the retail market is very easy. Then if a certain retailer has a large share of the market, its monopolistic behavior is restricted to some extent. It is a fact, however, that large scale stores have some harmful effects of monopoly when retailers around have no decisive counter-measures.